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Good morning. Thank you for the opportunity to appear again before this Committee and testify on consolidation in the airline industry. Ever since United Airlines proposed acquiring US Airways last May, airline consolidation has clearly been on this Committee's radar screen. And rightly so.

Members of this Committee and industry observers have expressed strong concerns about the potential impact of United's proposal. Likewise, many have warned that its approval would inevitably spark more mergers or acquisitions. As you may recall, I testified before this Committee last September that United's proposed merger with US Airways had triggered us at American Airlines to think long and hard about a defensive response. That examination resulted in our announcement last month of an agreement that directly addresses many of our concerns about the size and scope of the United/US Airways merger while positioning American as a much more vigorous competitor in the Northeast.

Coincidentally, an opportunity arose for us to enter into a completely separate and unrelated transaction. Quite simply, TWA's continuing downward financial spiral had finally reached a point of no return, threatening the jobs of its 20,000 employees and air service to communities throughout the nation's heartland. With only $20 million in the bank and needing $40 million to meet its obligations necessary for operating a normal schedule, TWA filed bankruptcy on January 9. We agreed to acquire substantially all of TWA's assets and have provided it $200 million in financing so that the airline can continue to fly during bankruptcy. As I will discuss in more detail later, the immediacy of TWA's situation as well as the carrier's significantly smaller size clearly dictates that this transaction be treated swiftly.

Let me begin, however, by addressing the broader question of airline consolidation. In an increasingly globalized business such as ours, competition will suffer if one network is allowed to dwarf all other networks. From a customer perspective, the benefits of a much broader network are clear. Our customers—both leisure and business travelers—increasingly expect their airline of choice to be able to take them everywhere they want to go. Accordingly, if one airline is able to grow its route network significantly larger than its competitors, that airline would have a competitive advantage.

The original United/US Airways proposal presented just such a scenario. Had its initial proposal been approved, United would have become 50 percent bigger than its nearest competitor, namely us. As you might imagine, for a company like ours that is determined to create a domestic and international network that is second to none, this got our attention. For air travelers, the unbalanced landscape caused by the lack of one or more competing networks of similar size and breadth would have surely led, I believe, to an eventual reduction in overall competition.

The ultimate size of United's route network was not the only cause for concern. As we all know, high market concentration on routes to and from the nation's capital led United and US Airways to propose creating a new entrant at Reagan National Airport named DC Air. While I tip my hat to both carriers for being able to persuade such an accomplished businessman as Robert Johnson to get mixed up in our industry—where margins are thin and headaches plenty—I think the relationship envisioned between United and DC Air caused most everyone, both inside government and out, to be somewhat skeptical. Simply put, it was hard to see any competitive benefit coming from the transaction given that DC Air's aircraft, flight crews, operational support, and management staff were mostly being supplied by either United or US Airways.

The potential effect on competition in the Northeast and on routes between United's hubs and US Airways' hubs was also problematic. American has a relatively small share of the key business routes between Boston, New York, and Washington, D.C. Our fear was that the proposed merger would entrench United, complete with its new, vastly larger transcontinental network, in an effective duopoloy with Delta in these shuttle markets, an outcome that rightly alarmed outside observers as well.

In the closing months of last year, it became apparent that the original United/USAirways proposal would not stand. This prompted American -- and a number of other competitors – to enter into discussions with the merger parties regarding proposals of asset sales.

In early January, we agreed to acquire certain key strategic assets from US Airways and to acquire a substantial stake in DC Air—both contingent upon the reconstituted United/US Airways merger receiving regulatory approval. In a nutshell, we would acquire from US Airways 14 gates, 36 slots, 66 owned aircraft and an additional 20 leased aircraft, as well as the gates and slots necessary for us to operate half of the US Airways Shuttle. In addition, to introduce immediate new competition on United/US Airways hub-to-hub routes, we agreed to guarantee that the following routes would be served by at least two roundtrips a day for the next 10 years: Philadelphia-Los Angeles, Philadelphia-San Jose, Philadelphia-Denver, Charlotte-Chicago, and Washington, D.C.-Pittsburgh.

As for DC Air, we agreed to take a 49 percent stake in the carrier and enter an exclusive marketing arrangement with it in which DC Air will participate in American's frequent flyer program. We will also provide DC Air with 11 100-seat Fokker 100 aircraft in an arrangement by which American Airlines personnel will be flying and maintaining AA aircraft marketed as DC Air service. American will also have the right of first refusal on the acquisition of the remaining 51 percent of DC Air.

Taken together, we believe these transactions relieve the competitive imbalance in the Northeast. They will also increase competition by making DC Air a real competitor with significant independent backing while affording us, for the first time, a significant presence in Washington, D.C. and the Northeast. American, for example, now accounts for roughly 13 percent of passenger boardings at Reagan National and far less than that at Washington Dulles and BWI. As in the Washington area, our expanded presence throughout the upper East Coast will ensure that there are at least three major competitors of comparable size on the Shuttle routes and at least two competitors on the hub-to-hub routes. And, passengers travelling along the East Coast will also benefit by our establishing another source of connecting service to compete with the service offered by United, Delta, Continental and other East Coast competitors.

Obviously, we have given the Justice Department and the Congress a lot to digest. American looks forward to working with both Justice and this Committee as you attempt to determine whether what we have put on the table sufficiently remedies the United/US Airways merger and, ultimately benefits the flying public.

On a more personal note, regardless of Justice's disposition of the transactions before it, I must say that I have gotten to know Robert Johnson over these past few months and am most impressed. He is a take-charge executive who knows how to provide consumers a service, and quite frankly, how to make money. Let there be no mistake, Robert Johnson and his team will run DC Air. He will be the majority owner and he will make the decisions. He has already begun recruiting a seasoned management team. American will be his marketing partner, and we will work closely together to add value to our respective networks. DC Air will be a valuable addition to our industry and bring to it the first minority-owned airline. I know that I speak for each and every one of American's 103,000 employees when I say that it has taken our industry far too long to reach this milestone and that we at American are proud to be affiliated with it.

As for the impact of American's entry into this equation, Jim Wilding, the president of the Metropolitan Washington Airports Authority, was recently quoted as being highly enthusiastic about the vigorous competition that American's affiliation with DC Air will bring to the Washington market in comparison with the original proposal. In Mr. Wilding's words: "If American and United are anything, they're competitors. They're like the cobra and the mongoose wherever they go."

Now let me turn to TWA—a storied but beleaguered airline that after 12 consecutive years of heavy losses and 3 bankruptcies has, in spite of valiant efforts by Bill Compton and his team, simply run out of money, time, and options. Carl Icahn has stripped this company over a period of years, selling assets, such as the prized route rights to London's Heathrow Airport, just to pay the bills. Going into this winter, typically the leanest months in the airline business, with the price of fuel soaring, TWA had nothing left to sell or mortgage that wasn't already encumbered. It also had a debt of $100 million coming due on January 15. Unable to secure or justify additional financing from traditional sources and with no one willing to purchase the airline, TWA in early January faced the very real likelihood that it would have to shut down and liquidate.

From time to time, we at American had looked at TWA as a possible merger candidate. Indeed, its centrally located St. Louis hub provides a nice complement to our operations at capacity constrained Chicago O'Hare. In addition, TWA's current management team had—in the face of some formidable obstacles—done a very good job of improving the airline's operation, and in particular, of modernizing its fleet. Unfortunately, very high ownership costs on TWA's new fleet and an unusual arrangement that allows an entity owned by Carl Icahn to sell TWA's ticket inventory at a substantial discount, made a potential AA/TWA merger a non-starter.

TWA's bankruptcy filing and looming collapse three weeks ago, however, presented a far different set of circumstances. We stepped in to provide—when no one else would—the cash TWA had to have to keep operating. We are proposing to acquire substantially all of TWA's assets, to hire all of TWA's employees and to continue a hub operation in St. Louis. Obviously, this transaction, which excludes certain TWA contracts such as Mr. Icahn's deal, is contingent on bankruptcy court approval.

Senator Carnahan, let me say to you in particular that we look forward to adding TWA's 20,000 employees to the American Airlines family. We are keenly aware of TWA's illustrious history and know that were it not for the hard work and great performance of the people throughout TWA, they would not be the perfect fit for American that we believe they are. We also recognize what a good corporate citizen TWA has been in the state of Missouri and I can assure you that our company will be as well.

In closing, permit me to be blunt. Time is of the essence with regard to TWA. We at American cannot commit our shareholders' money to keep TWA afloat indefinitely. There is simply not enough collateral for debtor in possession financing. Also, I fear, uncertainty will only serve to accelerate TWA's collapse as travel agents will likely book away from TWA, as was the case with the demise of Eastern Air Lines a decade ago. Similarly, consumer uncertainty will eventually cause travelers to not advance book flights on TWA, effectively shutting off the airline's already severely limited cash flow.

As for the Justice Department review of this transaction, I think it is fairly evident that there is a failed firm here, which in itself should serve to expedite the review process. Even so, the transaction gives rise to very few competition issues. Indeed, the market share of this one-time giant of the skies has now fallen to only 3.9 percent in 2000. Finally, even if TWA were not failing and therefore unable to compete on a going-forward basis, there are only two hub-to-hub routes where American and TWA both offer non-stop service. In the case of St. Louis-Chicago, for example, Southwest Airlines, which has 12 gates at St. Louis Lambert, provides 15 daily nonstop roundtrips between St. Louis and Chicago Midway, while United provides 4 daily nonstops between St. Louis and Chicago O'Hare.

The bottom line is that TWA's situation presents a truly unique and exceptional circumstance. Indeed, our acquisition of its assets is not contingent on approval of the other deals. As such, it is truly a stretch of the imagination to believe that the American/TWA transaction could in any way trigger the merger of far larger airlines. Instead, what is before you is our taking on a financial risk that no other airline was willing to take and commitments to the 20,000 TWA employees and their families that no one else would make.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions you or the Members of this Committee may have.